

CMP: INR 1,538

Rating: Accumulate

Target Price: INR 1,763

Stock Info

BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Sector	Communication
Face Value (INR)	10
Equity Capital (INR mn)	629
Mkt Cap (INR mn)	96,018
52W H/L (INR)	1,760/1136
Avg Yearly Vol (in 000')	434

Shareholding Pattern %

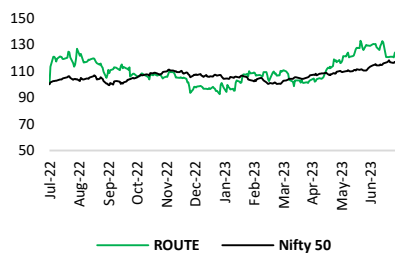
(As on June, 2023)

Promoters	58.32
Public & Others	41.68

Stock Performance (%)

	1m	3m	12m
Route	-2.9	21.4	24.8
Nifty 50	3.2	8.3	15.6

Route Mobile Vs Nifty Price Chart



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The company reported below our estimate in Q1FY24 on the back of two strong quarter. Reported revenue of INR 9,673 Mn down -4.1% QoQ/ +32.7% YoY against our estimate of INR 9,810 Mn. The growth was led by the volume of International Long Distance (ILD) is deepening due to market conditions. Consolidated Gross profit stood at INR 2,071 Mn in Q1FY24 down by 3.4%QoQ/+26.9% YoY against Q4FY23 of INR 2,144 Mn. A gross Profit margin of 21.41% in Q1FY24 against 21.25% in Q1FY23.Consolidated EBITDA stood at INR 1,232 Mn, down by 6.7%QoQ/+45.4% YoY against our estimate of INR 1,320 Mn. EBIT stood at 1,169 against our estimate of INR 1,269.EBITDA margin was contracted 35bps QoQ/ +111bpsYoY at 12.7% and EBIT margin contracted by 34 bps QoQ to 12.1 against our estimate of 12.5% on the back of 2-3 large deals shifted to Q2FY24.Consolidated PAT stood at INR 917 Mn, down by 11.9%QoQ/+29% YoY against our estimate of INR 989Mn.The Board has recommended an interim dividend of INR 3 per equity share.

Strong deal momentum: The company is in advanced discussion for a few large firewall contract (firewall deals in some markets, which is >\$100 mn of a deal). Continue to gain significant MS in India and NLD volumes have picked up significantly Q4FY23.

Unlocking Synergies with Proximus: Route Mobile Limited's promoters and promoter group will sell their 57.56% shareholding to Proximus Opal and then reinvest in Proximus Opal themselves. The collaboration between Route Mobile and Telesign provides instant access to top US enterprise customers through Telesign's established blue-chip customer base, which has been challenging for Route Mobile to penetrate alone. Leveraging Telesign's strong customer relationships presents the perfect synergy. Together, they dominate India's market, cross-selling omnichannel identity verification. Route Mobile's vast connections in high-growth regions allow Telesign to expand services. A powerful partnership amplifying their reach and serving top-tier customers in emerging markets

Valuation and Outlook

The management has guided for 20% growth in FY24 with the potential for revision pending the finalization of an imminent deal, aiming for an EBITDA margin in the 13% to 15%. The collaboration between Route Mobile and Telesign provides instant access to top US enterprise customers through Telesign's established blue-chip customer base, which has been challenging for Route Mobile to penetrate alone. Leveraging Telesign's strong customer relationships presents the perfect synergy. The acquisition will expand the company's presence in 9 new geographies, resulting in revenue and cost synergies. We believe, i) The company has demonstrated decent resilience despite macro headwinds; ii) it is poised for better growth due to the potential to expand its large-client base globally across multiple countries. **We value the stock at a PE multiple of 23x to its FY26E EPS of INR ~20, which yield a revised target price of INR 1,763 per share (earlier target price; INR 1,595 per share). We maintain our Accumulate rating on the stock.**

Exhibit 1: Snapshot of Financial

YE March (INR Mn)	Revenues	EBITDA	EBITDA Margin (%)	PAT	EPS (INR)	RoE (%)	P/E (x)
FY23	35,692	4,442	12.44%	3,331	52.3	18.22%	29.4
FY24E	42,831	5,525	12.90%	3,714	59.5	17.41%	25.9
FY25E	49,255	6,403	13.00%	4,175	66.9	16.87%	23.0
FY26E	56,644	7,420	13.10%	4,785	76.6	16.69%	20.1

Source: Company, Arihant Research

Exhibit 2: Q1FY24 performance

INR Mn (Route Mobiles Ltd.)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
Net Revenue	9,673	10,087	7,290	-4.1%	32.7%
Purchase of messaging service	7,602	7,943	5,658	-4.3%	34.4%
Gross Profit	2,071	2,144	1,632	-3.4%	26.9%
Gross Profit (%)	21.41%	21.25%	22.39%	15bps	-98bps
Employee cost	537	506	459	6.1%	16.8%
Other Expenses	303	318	326	-4.8%	-7.0%
EBITDA	1,232	1,320	847	-6.7%	45.4%
EBITDA margin %	12.7%	13.1%	11.6%	-35bps	111bps
Other Income	149	146	148	2.2%	0.9%
Depreciation	211	212	196	-0.5%	8.0%
EBIT	1,169	1,253	799	-6.7%	46.3%
EBIT margin %	12.1%	12.4%	11.0%	-34bps	113bps
Finance cost	67	50	42	34.7%	60.9%
Exceptional Item	-	-	-	-	-
Profit Before Exceptional item	1,102	1,204	757.40	-8.4%	45.5%
Exceptional Item					
Tax Expense	185	163	47	13.7%	297.0%
Effective tax rate %	16.8%	13.6%	6.2%	327bps	1065bps
PAT	916.9	1,041	710.70	-11.9%	29.0%
Non-controlling interest	-7.5	24.4	16.6	-130.7%	-145.2%
adjusted PAT	924	1,016	694.10	-9.0%	33.2%
PAT margin %	9.6%	10.1%	9.5%	-52bps	3bps
EPS (INR)	14.8	16.3	11.0	-9.1%	34.3%
Segment Revenue INR Mn.	Q1FY24	Q4FY23	Q4FY23	Q-o-Q	Y-o-Y
India (Companies registered in India)	1,659	1,478	1,467	12.2%	13.1%
Overseas (Companies registered outside India)	8,919	9,831	7,536	-9.3%	18.4%
Inter segment revenue	(905)	(1,223)	(1,713)	-26.0%	-47.2%

Source: Company, Arihant Research

Exhibit 3: Steady growth in revenue front and traction on the gross profit margin (INR Mn).

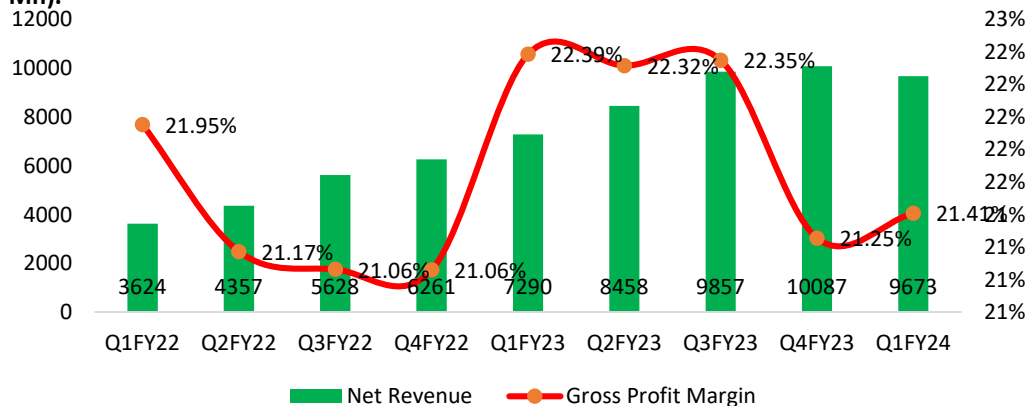
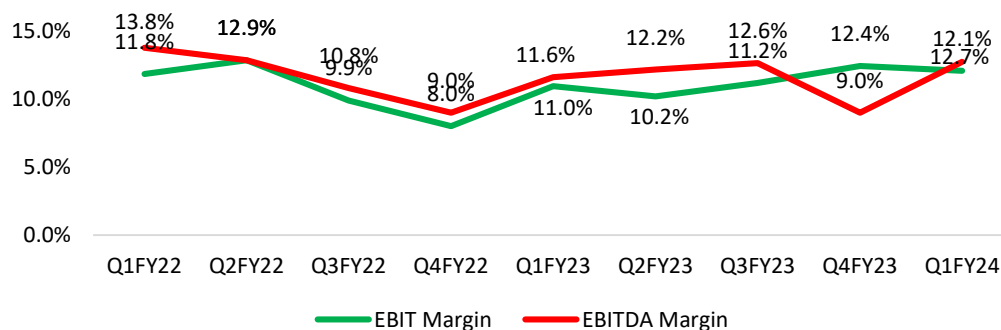


Exhibit 4: Margin contraction led by better growth momentum (INR Mn).



Source: Company, Arihant Research

Q1FY24-Key Conference call Highlights

Guidance: The management has guided for 20% growth in FY24 with the potential for revision pending the finalization of an imminent deal, aiming for an EBITDA margin in the 13% to 15%.

- The company secured a significant CPaaS contract with a leading e-commerce and cloud computing company, spanning 10 countries, including India.
- Advanced discussions for large firewall contracts (Example: over \$100 mn deals) are underway, with notable growth in MS and NLD volumes in Q4FY23.
- The company's Tier 1 vendor status in ROCCO's A2P Market Impact Report FY23 for MNO and enterprise category reaffirms its market position.
- The promoters and promoter group of Route Mobile Limited has agreed to sell their 57.56% shareholding to Proximus Opal, followed by a reinvestment in Proximus Opal by Route Mobile's founding shareholders.

Synergy with Proximus Opal (Telesign)

- The acquisition of Proximus Opal will provide access to the US market through telesign blue-chip customers, enabling cross-selling of services and expansion into high-growth regions.
- The partnership with Telesign will also lead to the developing a digital fraud platform, TruSense, addressing emerging market issues.
- In Q1, the company processed over 29.5 bn transactions, the highest quarterly volume.
- The acquisition will expand the company's presence in 9 new geographies, resulting in revenue and cost synergies.

Billable

- Billable transactions reaching INR 29.5 bn.
- Average realization per billable transaction reduced to INR 0.33 in Q1 FY24 vs 0.37 in Q4FY23, with net revenue retention of 122% and over 100 new customers added.
- The contractual locking of shares in the CPaaS leg of the business will continue for 5 years, with various options for future ownership.

Amazon

- The integration with Amazon is underway, with expectations of generating volume and revenue from August.
- **Masivian** revenue was INR 57 cr, and MRM messaging revenue was INR 146 odd cr in Q1FY24, with one MRM messaging client being impacted.

Income Statement					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	20,020	35,692	42,831	49,255	56,644
<i>Change (%)</i>	42.4%	78.3%	20.0%	15.0%	15.0%
Cost of Goods Sold	15,825	27,826	33,408	38,419	44,182
Employee costs	1,261	1,969	2,270	2,611	2,945
Other expenses	748	1,456	1,628	1,822	2,096
Total operating Expense	17,834	31,251	37,306	42,852	49,223
EBITDA	2,186	4,442	5,525	6,403	7,420
EBITDA Margin (%)	10.9%	12.4%	12.9%	13.0%	13.1%
Other Income	201	394	400	408	416
Depreciation	383	816	1,017	1,307	1,569
Interest	52	205	265	285	286
PBT	1,952	3,815	4,643	5,219	5,981
Extra-ordinary	-	-	-	-	-
PBT after ext-ord.	1,952	3,815	4,643	5,219	5,981
Tax	251	484	929	1,044	1,196
<i>Rate (%)</i>	12.9%	12.7%	20.0%	20.0%	20.0%
PAT	1,701	3,331	3,714	4,175	4,785
<i>Change (%)</i>	28.2%	95.9%	11.5%	12.4%	14.6%

Balance Sheet					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Share Capital	629	624	624	624	624
Reserves & Surplus	16,097	17,580	20,625	24,049	27,972
Minority Interest	21	80	80	80	80
Net Worth	16,746	18,284	21,329	24,753	28,676
Long term debt	-	437	438	439	440
Short term debt	-	625	650	676	703
Total Debt	-	1,062	1,088	1,115	1,143
Capital Employed	26,587	28,852	34,265	39,313	45,102
Application of Funds					
Net Block	290	344	462	594	713
other intangible Asset	9,233	9,180	8,318	9,030	8,843
Deffered Tax & Non Current Asset & Financial Asset	373	514	514	514	514
Other Non-Current Assets	5	732	732	732	732
Capital WIP	-	10.90	10.90	10.90	10.90
Non Current Asset	9,901	10,771	10,027	10,871	10,802
Investments	134	203	203	203	203
Debtors	5,165	7,015	10,444	12,010	13,812
Cash & bank balance	4,073	4,836	7,220	9,497	13,137
other Financial & Current Asset	1,126	1,914	2,409	2,770	3,186
Total current assets	10,498	13,968	20,275	24,480	30,337
Total Assets	26,587	28,852	34,265	39,313	45,102

Source: Company, Arianth Research

Cash Flow Statement					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,952	3,815	4,643	5,219	5,981
Depreciation	383	816	1,017	1,307	1,569
Interest Exp	-10	-5	265	285	286
Other Non Cash Item	-156	-151	-145	-145	-145
Cash flow before WC changes	2,169	4,475	5,780	6,666	7,691
(Inc)/dec in working capital	-658	-3,768	1,766	-349	-401
Operating CF after WC changes	1,795	1,067	6,277	4,580	5,554
Less: Taxes	-450	-484	-929	-1,044	-1,196
Operating cash flow	1,346	583	5,349	3,536	4,357
(Inc)/dec in F.A	-171	-107	-118	-132	-119
Other	-4,083	57	57	259	462
Cash flow from investing	-8,384	-118	-61	129	345
Free cash flow (FCF)	1,175	476	5,230	3,404	4,239
Proceeds/(Repayment) of current borrowings	-	624.70	24.99	25.99	27.03
Proceeds/(Repayment) of non-current borrowings	(40)	-	-	-	-
Interest & Lease Liability	(14)	-	-	-	-
Dividend	-300	-587	-669	-751	-861
Interest exp	-5	-205	-265	-285	-286
Cash flow from financing activities	8241	-167.3	-2438.5	-1386.4	-1061.0
Currency fluctuation arising on consolidation	-	-	-	-	-
Net inc/(dec) in cash	1,202	297	2,849	2,278	3,642
Opening balance of cash	2,699	4,076	4,372	7,220	9,497
Closing balance of cash	4,076	4,372	7,220	9,497	13,137

Key Ratios					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Per share (INR)					
EPS	27.8	52.3	59.5	66.9	76.6
CEPS	33.1	66.4	75.8	87.8	101.8
BVPS	266.4	292.8	341.6	396.4	459.3
Valuation (x)					
P/E	55.3	29.4	25.9	23.0	20.1
P/BV	5.8	5.3	4.5	3.9	3.3
EV/EBITDA	63.2	31.0	24.5	20.8	17.4
Return Ratios (%)					
Gross Margin	21.0%	22.0%	22.0%	22.0%	22.0%
EBIDTA Margin	10.9%	12.4%	12.9%	13.0%	13.1%
PAT Margin	8.5%	9.3%	8.7%	8.5%	8.4%
ROE	10.2%	18.2%	17.4%	16.9%	16.7%
ROCE	10.8%	18.7%	20.1%	19.7%	19.6%
Leverage Ratio (%)					
Turnover Ratios					
Asset Turnover (x)	0.8	1.2	1.3	1.3	1.3
Receivable Days	94	72	89	89	89
Payable days	87	48	86	86	86

Source: Company, Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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